



WEEKLY ECONOMIC DIGEST

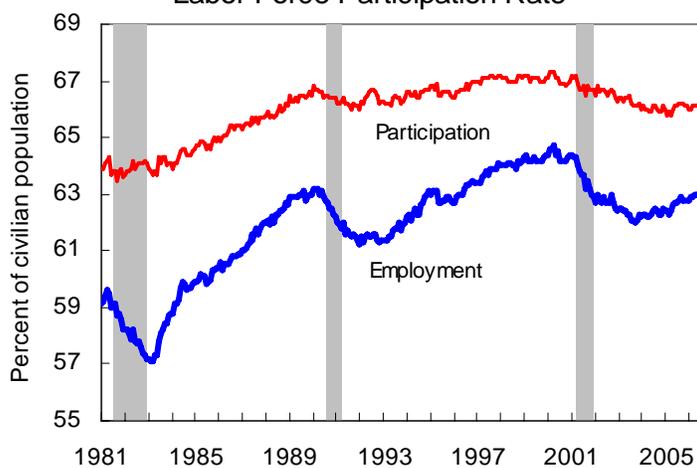


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

June 6, 2006

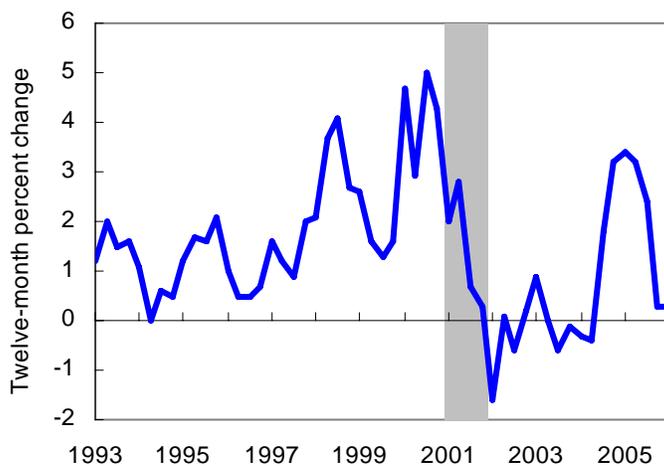
Employment and Earnings Growth Slowed in May

Civilian Employment-to-Population Ratio and Labor Force Participation Rate



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Unit Labor Costs



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Job growth slowed again in May.** Payroll employment at nonfarm establishments rose by only 75,000 jobs last month after slowing in March and April. May's advance was the slowest in seven months, and less than half the gain of 170,000 jobs that financial markets had expected. Over the past year, payroll employment has grown by an average of about 158,000 jobs per month, which is not much faster than normal growth in the labor force.

- **Unemployment edged down last month.** The civilian unemployment rate declined by 0.1 percentage point to 4.6 percent in May. The percentage of the population either working or actively seeking work remained 66.1 percent, 1.1 percentage points below the labor force participation rate at the start of the recession in March 2001 (see top chart). The percentage of the population with a job was also unchanged at 63.0 percent, 1.3 percentage points lower than it was in March 2001.

- **Growth in real compensation per hour lagged productivity growth in the first quarter.** Growth in output per hour in nonfarm businesses was revised up to 3.7 percent at an annual rate while growth in compensation per hour (wages plus benefits) was revised down to 3.2 percent after inflation, according to revised estimates from the Department of Labor. Separate data on real average hourly earnings of production or nonsupervisory workers show a sharp deceleration in May, with growth of just 0.1 percent following a 0.6 percent jump in April.

- **Revisions to productivity eased concerns about labor costs.** The revisions to productivity and compensation led to a sharp downward revision in first quarter unit labor costs (compensation per unit of output). Over the last four quarters, unit labor costs have risen a modest 0.3 percent (see bottom chart), compared with an initial estimate of 1.4 percent, easing analysts' concerns that labor costs could fuel inflation.

The Economy at a Glance	May	Apr	Mar	Feb	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	5.3	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	n.a.	10.0	7.4	4.9	5.4	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	n.a.	81.9	81.4	81.1	81.2	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.6	4.7	4.7	4.8	4.7	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)	n.a.	1849	1996	2132	2131	2060	2101	2064	2073	1950
Real Disposable Personal Income (% growth)	n.a.	-1.2	0.0	2	2.1	5.1	-1.4	0.2	1.3	3.4
Retail Sales (% growth)	n.a.	6.0	7.8	-9.7	13.3	1.9	8.6	9.5	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-1.6	-1.4	-1.3	-1.3	-0.5	-1.6	-0.2	-0.5	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	7.4	4.9	1.2	2.2	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	3.7	3.7	1.2	2.4	2.4	1.6	2.0	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	3.2	2.8	3.3	3.7
Output per Hour (% growth)	—	—	—	—	3.7	-0.3	4.2	2.4	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.72	4.60	4.51	4.43	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	5.11	4.99	4.72	4.57	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.94	4.79	4.59	4.49	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11334	11235	11144	10971	10996	10616	10544	10382	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

Upcoming Economic Releases:

- **Monthly Wholesale Trade, Sales and Inventories: April 2006** [Release: Thursday, June 8]
- **Import and Export Price Indexes: May 2006** [Release: Friday, June 9]
- **U.S. International Trade in Goods and Services: April 2006** [Release: Friday, June 9]
- **Monthly Treasury Statement of Receipts and Outlays of the U.S. Government: May 2006** [Release: Monday, June 12]
- **Manufacturing and Trade Inventories and Sales: April 2006** [Release: Tuesday, June 13]
- **Producer Price Indexes: May 2006** [Release: Tuesday, June 13]
- **Advance Monthly Sales for Retail Sales and Food Services: May 2006** [Release: Tuesday, June 13]